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- Introduction
- Activity-Based Costing/Management
- Integrated Performance Management
- Questions

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Why do we worry about costing?

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A costing approach that uniformly assigns (“spreads”) the cost of resources to products, services, or customers.

It is called the “Peanut Butter Effect”

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Traditional costing inaccuracy can be attributed to:

- The assumption that products and services causes costs
- Cost assignment to product and service units instead of assigning costs to activities than to products/services
- Direct labor based cost allocations

In fact, organizational resources are consumed by work performed (activities), and the activities are consumed by Products/Services.

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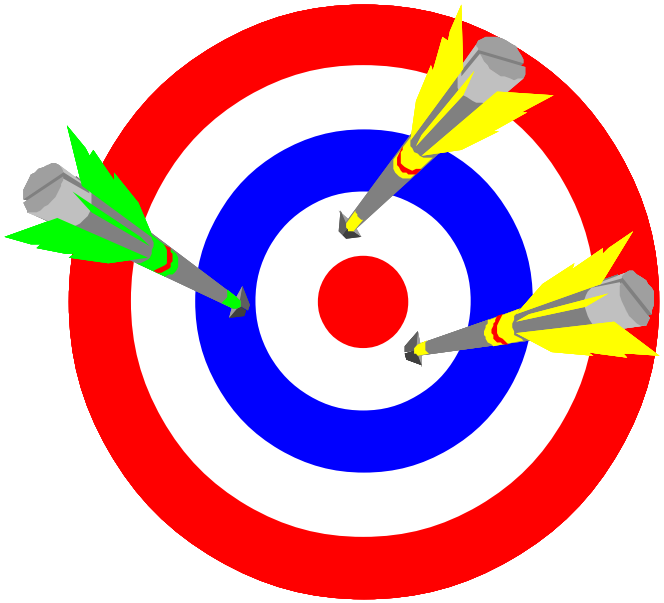
Very precise, but not accurate

Accurate, but less precise



It is better to be about right, than precisely wrong.

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Traditional Costing

- Makes me aware of how much I spent
- Does not tell me a lot about my costs
- Does not tell me what to do or where to look to reduce my cost
- Does not teach me how to be more efficient

Activity-Based Costing

- Makes me aware of where I spent
- Gives me visibility into my costs
- Gives indications on where to look and start to reduce cost
- Gives me a baseline to evaluate my efficiency improvements

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ABC is . . .

- an alternative to the current accounting system
- a “Silver Bullet”/Panacea/Crystal Ball
- a flavor of the month
- a software or a computer model
- easy to get to requiring little effort

ABC is a management tool for all everyone

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- Determines ***what*** work is being performed
- Provides an accurate picture of the ***total (full) cost*** of producing outputs
- Creates a ***process view*** of operations to measure the effectiveness of the outcome
- A ***management tool*** that provides insights into the cost performance of an organization at all levels to manage performance effectively
- A foundation to articulate ***requirements*** and ***budgets***

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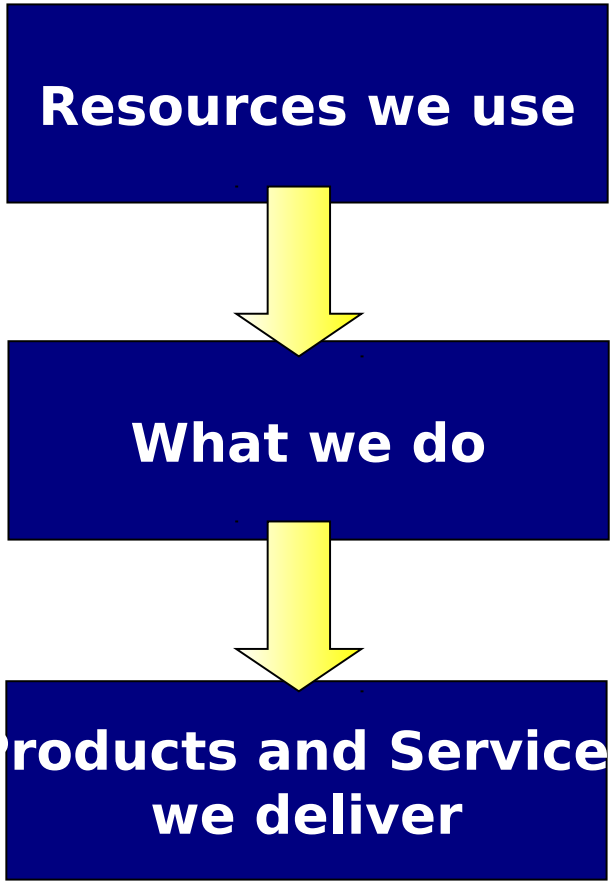
ABC operates on a simple concept of tracing costs based on behaviors

- On a daily basis we spend resources to do things
- By doing things, we produce and deliver products and services



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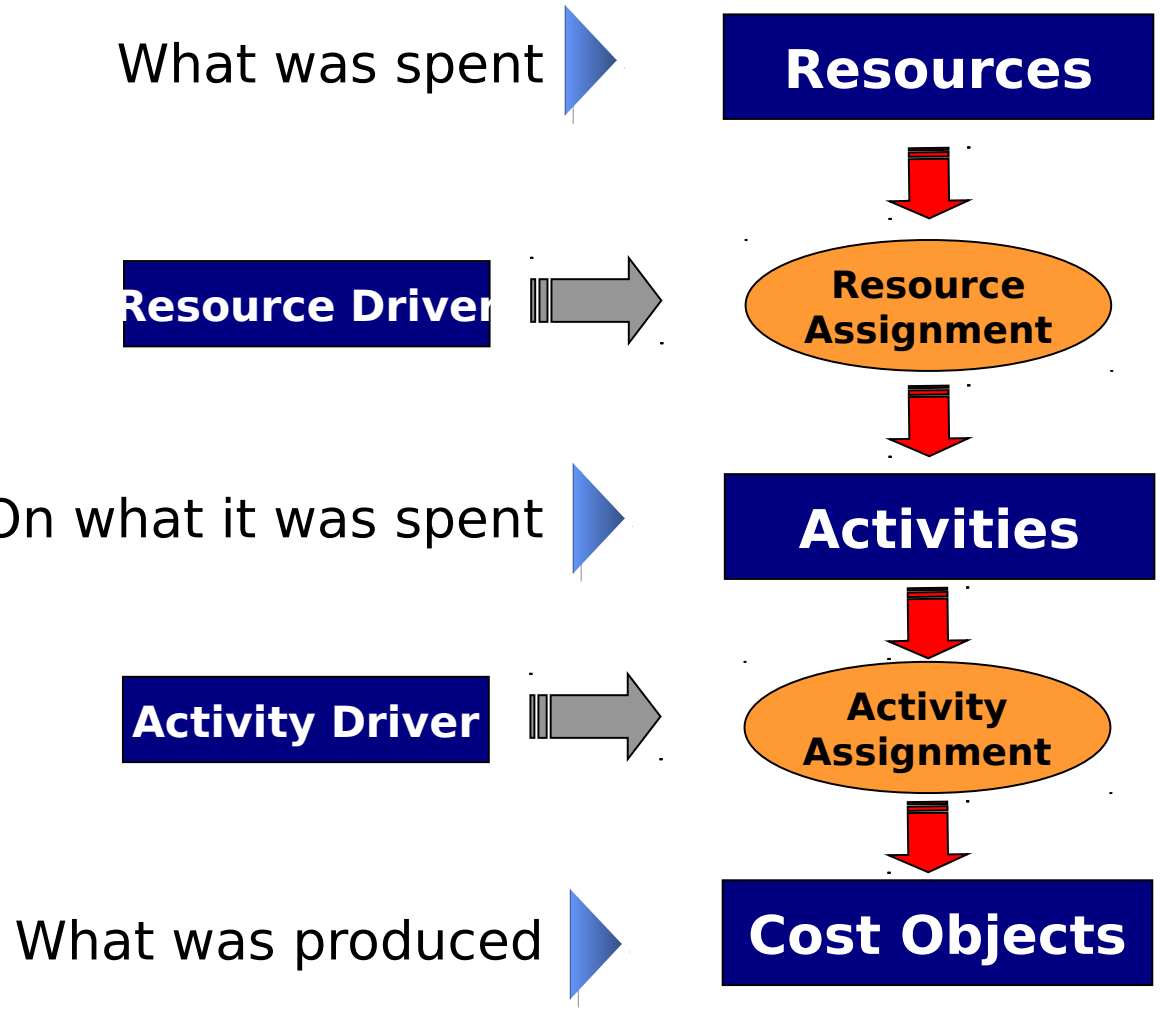

Cost Assignment View

Provides Information on Cost of Activities and Cost Objects (Financial)

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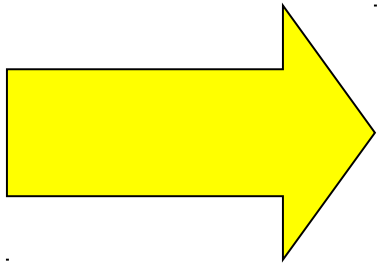
Helps determine the workload of an activity

Helps determine how well an activity is performed

Process View Dimension



Provides Information About the Work Done in the Activity/Process (Non-Financial)

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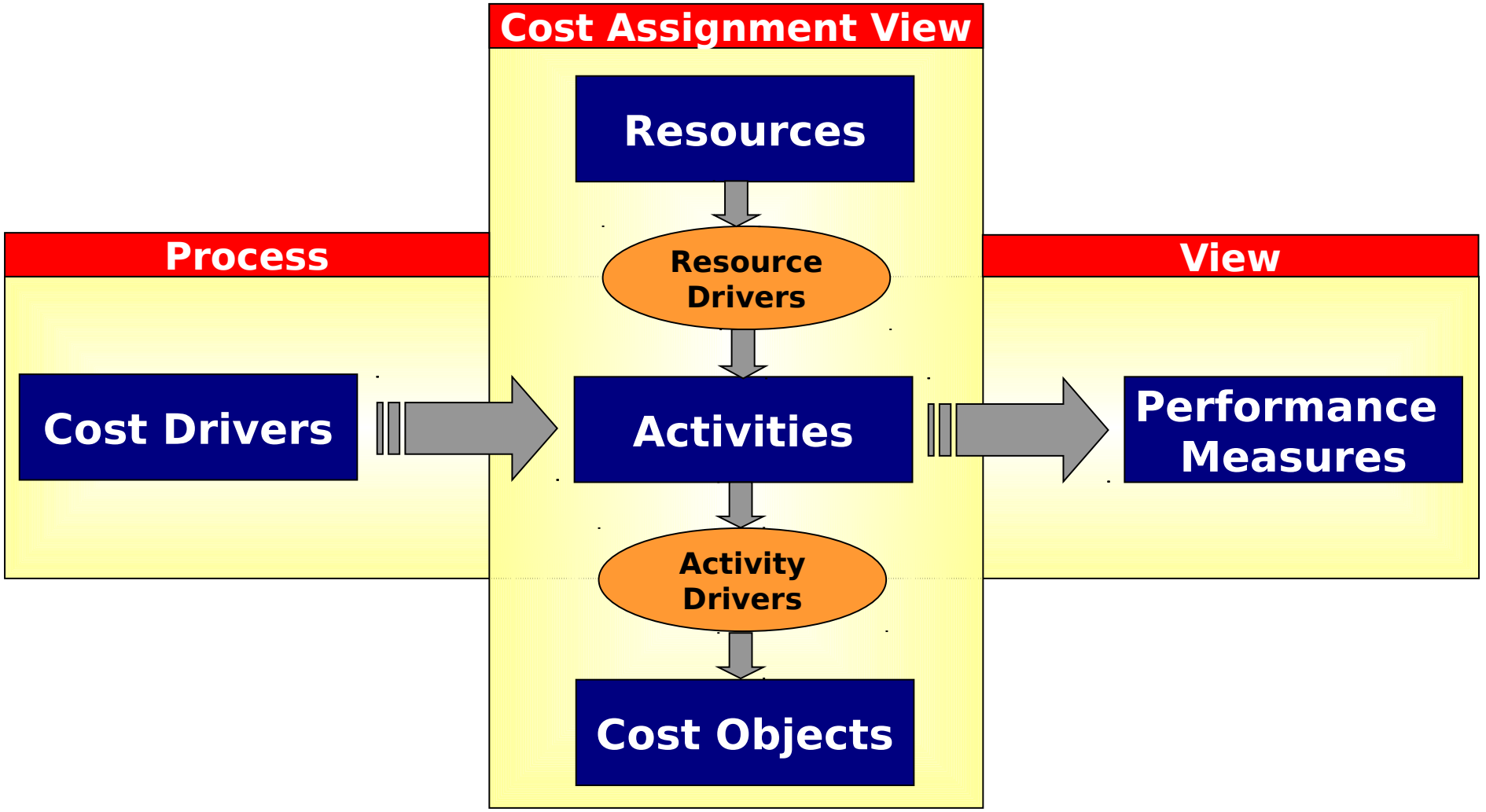

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Approach to a Successful ABC Implementation

1. **ine the Size of the ABC Impleme**
   "Begin with the End in Mind!"
2. **Plan Implementation and Develop Communication Strategy**
3. **Develop ABC Information**
   (Resources, Activities, Cost Objects, et
4. **velop Decision-support Informati**

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Different Organizations have Different Needs

- No cookie-cutter, one-size-fits-all approach
- Business issues differ from organization to organization
- Levels of meaningful detail differ
- End use of the ABC information changes with organizational decision-support needs

Begin With the End In Mind!

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- Management commitment is key
  - Set expectations
  - Align expectations to resources available (Is the view worth the climb?)
  - Monitor progress in a formal way
    - Pin the rose, set targets
    - Review at major milestones
    - Build decision support information
- Communicate across the enterprise
  - Don’t wait for model completion to ACT on identified issues
  - Advertise ad celebrate successes
  - Reward initiative in proportion to the contribution

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- What is Performance Measurement?
- Why measure performance?
- Who benefits from it?
- Why should we do it?

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- You cannot manage what you cannot measure
- You cannot measure what you cannot operationally define
- You cannot operationally define what you do not understand
- You will not succeed if you do not manage

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- Knowing what is going on in their enterprise
- Effectively making and supporting decisions regarding resources, plans, policies, schedules, and structure
- Specifically communicating performance expectations to subordinates
- Identifying performance gaps that should be analyzed and eliminated
- Providing feedback that compares performance to a standard
- Identifying performance that should be rewarded

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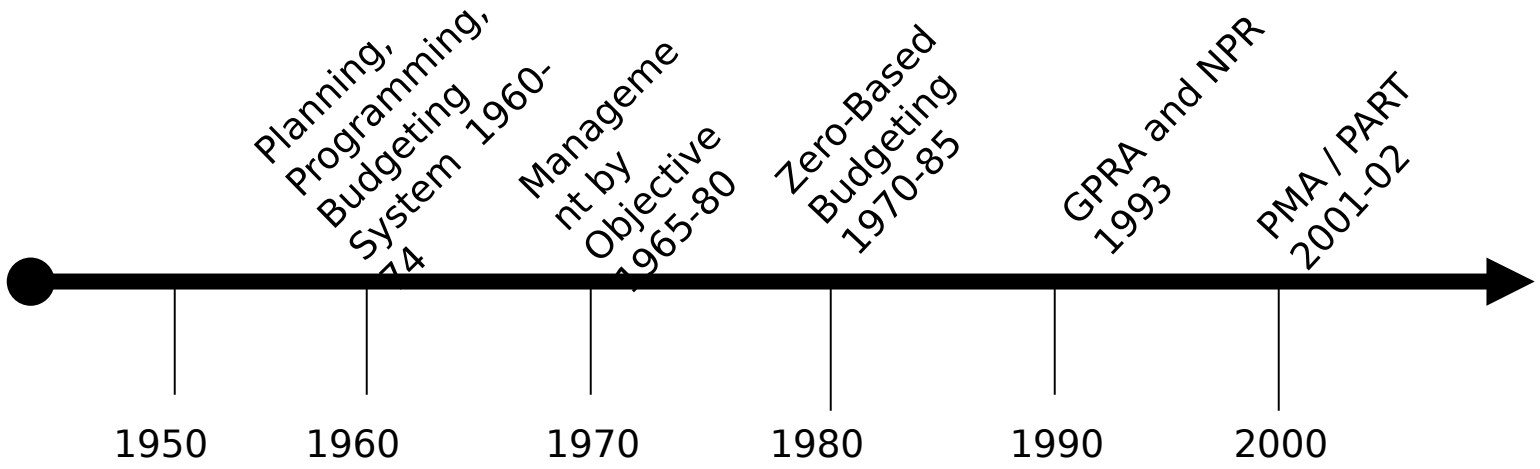

Management Theories: A Timeline

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- Office of Management and Budget (OMB)
  - Government Performance and Results Act (GPRA)
  - President's Management Agenda (PMA)
  - Program Assessment and Rating Tool (PART)
- Government Accountability Office (GAO)

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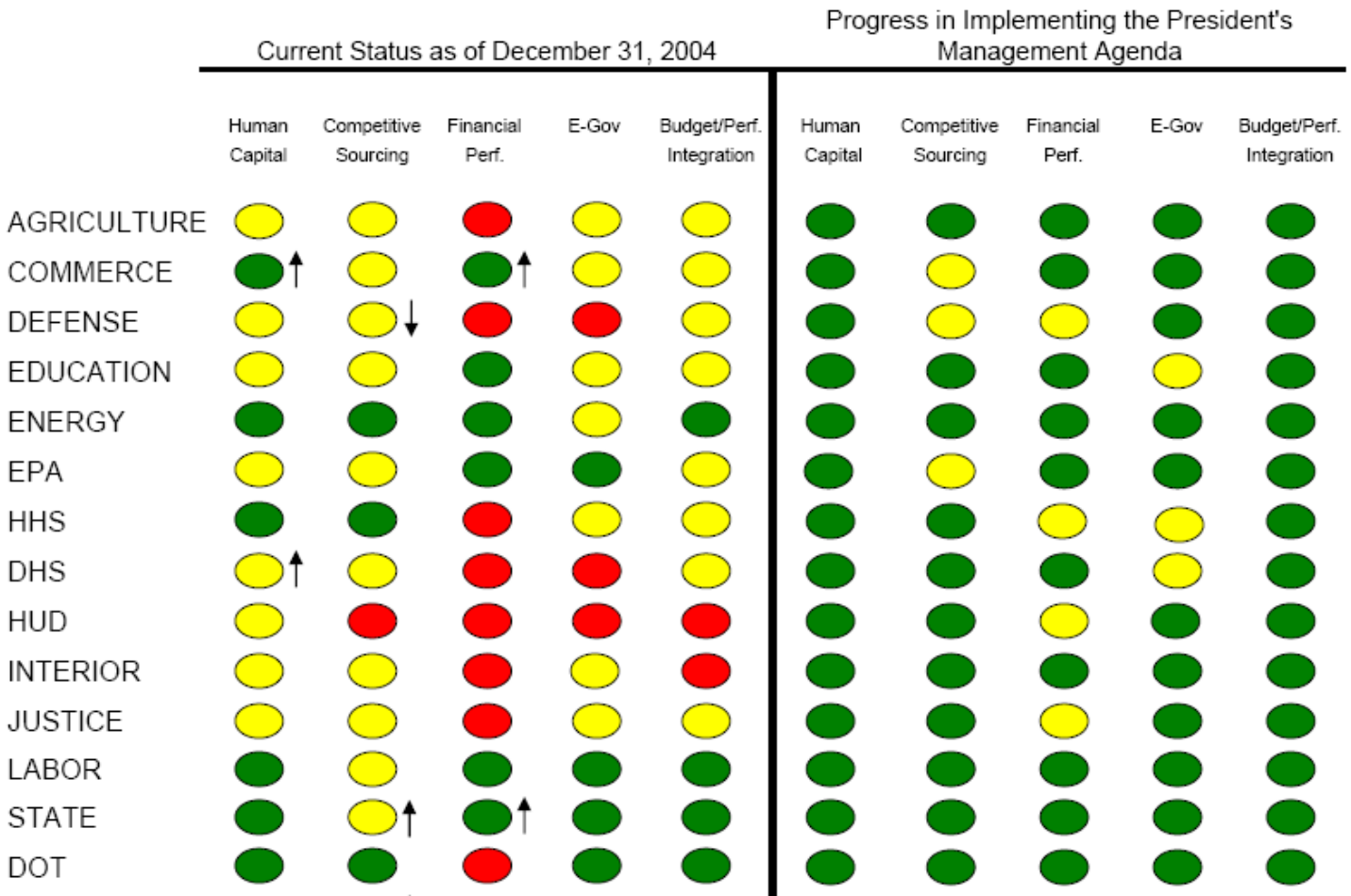
Executive Branch Management Scorecard



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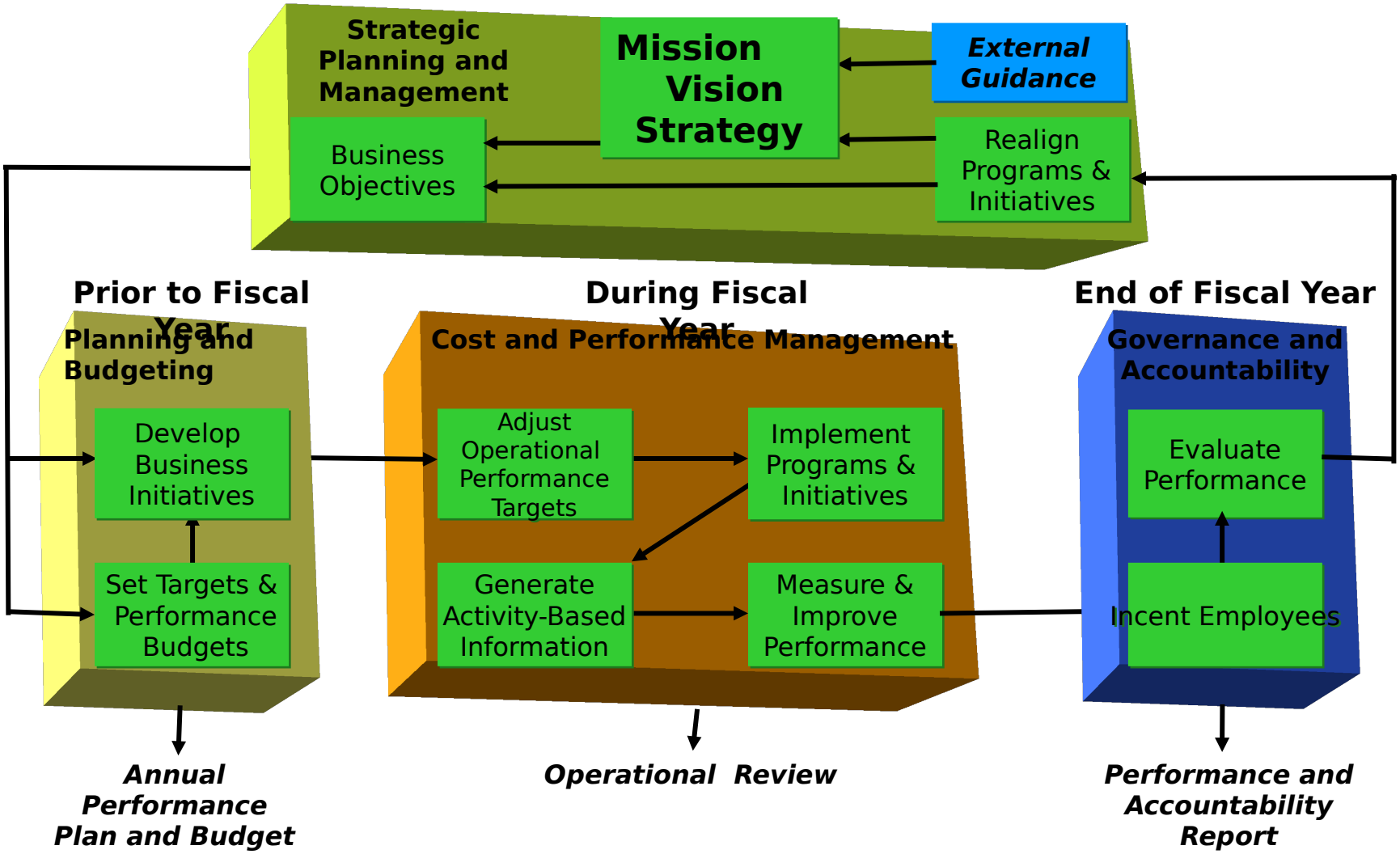

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Uday Desai
Grant Thornton
(703) 587-4196
uday.desai@gt.com

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